

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 58161

**STEVENS COUNTY, WASHINGTON**

January 1, 1995 Through December 31, 1995

Issue Date: April 18, 1997

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**STEVENS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Board of Commissioners  
Stevens County  
Colville, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Stevens County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Stevens County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

We also noted a matter involving noncompliance with laws and regulations related to federal financial assistance which was reported to the county's management in our report on general requirements and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 16, 1997

**STEVENS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure  
At The Financial Statement Level**

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Board of Commissioners  
Stevens County  
Colville, Washington

We have audited the general-purpose financial statements of Stevens County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the county's management in our report on general requirements and the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 16, 1997

**STEVENS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Schedule Of Findings**

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1. Controls Over Cash Receipting At The Decentralized Locations Should Be Strengthened

Our review of the cash receipting procedures at the county's decentralized locations revealed the following internal control weaknesses:

- a. The county does not have written policies and procedures for cash receipting at decentralized locations.
- b. Public funds are not consistently being deposited within twenty-four hours of receipt as required by state law.
- c. Cash/check composition of the payments received is not consistently recorded on the receipts.
- d. Departments are using blank Redi-form receipts. The use of "Redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- e. Checks are not always restrictively endorsed when received.
- f. There is inadequate segregation of duties over the billing, collection, record keeping, and deposit of receipts.
- g. There is no established responsibility for cash receipted as multiple employees have access to cash receipts.
- h. There is no review of cash receipting documents from employees independent of the cash receipting function.
- i. Expected revenues are not reconciled to daily receipts and bank deposits.
- j. Not all moneys received are receipted.

RCW 43.09.240 states:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.



Weak internal controls over cash receipting at decentralized locations increases the risk that theft may occur and not be detected in a timely manner, if at all.

These conditions have occurred because the county has no established written policies and procedures from which to maintain proper control over county cash receipting.

We recommend the county's management strengthen the cash receipting internal control system. This should include, but is not limited to, the following:

- a. Establish written policies and procedures for cash receipting at decentralized locations.
- b. Deposit intact all money received within twenty-four hours as required by statute.
- c. Record the cash and check composition on all receipts to ensure that all moneys recorded are properly deposited.
- d. Replace blank Redi-form receipts with official county prenumbered receipts controlled by the treasurer.
- e. Restrictively endorse all checks immediately upon receipt.
- f. Segregate the duties over the billing, collection, record keeping, and deposit of receipts so that one person does not have total control of a transaction cycle.
- g. Designate the employee or employees responsible for the control and protection of cash receipts. Limit the access to the cash receipts to these employees responsible.
- h. Regularly monitor the receipting documents to ensure that all money collected is correctly deposited and accounted for.
- i. Regularly reconcile expected revenues to money deposited into the bank by an individual independent of the cash receipting process.
- j. Receipt all money collected.

Auditee's Response

*The County's accounting committee has met since your exit interview to review your comments and we will strive to correct the items mentioned by the time of your next visit. We had a good discussion of the issues and their purpose. Some items have been corrected already and we will be pushing to complete the remainder. District Court has experienced a complete turn over of key personnel and the new staff is anxious to get things straightened out. We may not be able to completely meet all items, but we will document in writing those differences and the thinking behind the final decision.*

*I find this kind of auditing very useful and enlightening. I want to thank you and your staff for their effort and I look forward to discussing specific solutions with you in the future. Each individual office has offered their own comments and I have either enclosed them or they have been sent under a separate letter.*

2. Public Works Should Strengthen Internal Controls Over The Cash Receipting System

During our review of the Public Works Department's cash receipting internal control system, which collected in excess of \$1.3 million during 1995, we noted the following weaknesses:

- a. Cash receipts are not issued for all moneys collected.
- b. Public funds are not being deposited intact within twenty-four hours of receipt as required by law.
- c. Cash/check composition is not recorded on receipts.
- d. Departments are using blank Redi-form receipts. The use of Redi-form receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- e. Checks are not restrictively endorsed when received.
- f. Expected revenue from the permits issued are not being reconciled to receipts and deposits.
- g. Improper segregation of duties exists with the accounting manager who receives, posts, and deposits state highway payments.

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

Without adequate controls over cash receipting and reporting, there is no assurance that all receipts are properly deposited for the benefit of the public and that the accounting records are accurately prepared. Further, weak internal controls increase the risk that theft could occur and not be detected in a timely manner, if at all.

These conditions have occurred because the Public Works Department has not implemented strong internal controls over the cash receipting system. Also, the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the county establish policies and procedures to strengthen internal controls over the cash receipting system. These procedures should include but are not limited to the following:

- a. Issue receipts for all moneys collected. Replace blank Redi-form receipts with official county prenumbered receipts controlled by the treasurer.
- b. Deposit all public funds intact within twenty-four hours of receipt.
- c. Record the cash and check composition of all receipts and reconcile to assure that all moneys collected are deposited properly.

- d. Replace blank Redi-form receipts with official county prenumbered receipts controlled by the treasurer.
- e. Restrictively endorse checks upon receipt.
- f. Regularly reconcile expected revenues to money deposited into the bank by an individual independent of the cash receipting process.
- g. Segregate the cash receipting duties of collecting, recording, and depositing.

Auditee's Response

*As you know, Public Works received two audit findings on our 1995 audit. This memo explains how we will remedy the problems. The first finding deals with internal controls over the cash receipting. The problems and their solutions are listed below:*

- 1. *PROBLEM: Cash receipts not issued for all monies collected.  
SOLUTION: All cash will be receipted in at the front desk and a receipt will be generated. Checks received through the front desk by Accounting will be recorded on a log sheet that includes date, payee, description, check number, amount, date of deposit, and Treasurer's receipt number.*
- 2. *PROBLEM: Funds are not deposited within twenty-four hours of receipt.  
SOLUTION: Deposits will be made daily if there is more than \$250.00, otherwise a weekly deposit will be made. According to Martin Kittredge and Frank Zahniser, State Auditor's Office, this was adequate.*
- 3. *PROBLEM: Cash/check composition is not recorded on receipts.  
SOLUTION: The new receipts have a box to check indicating cash or check and we will use it.*
- 4. *PROBLEM: Using redi-form receipts.  
SOLUTION: We have purchased and are using pre-numbered receipts.*
- 5. *PROBLEM: Checks are not restrictively endorsed when received.  
SOLUTION: All checks will be stamped "FOR DEPOSIT ONLY" at the front desk before putting them in the cash box or giving them to accounting.*
- 6. *PROBLEM: Expected permit revenue not being reconciled to deposits and receipts.  
SOLUTION: Utility Company Job numbers and receipt numbers will be cross-referenced. The job number will be written on the receipt and the receipt number will be written on the permit.*
- 7. *PROBLEM: Improper segregation of duties. Accounting Manager receives, posts and deposits State Highway payments.  
SOLUTION: Checks will come to Accounting restrictively endorsed for deposit only. All CASH will be receipted at front desk.*

3. The Cash Receipting Internal Control System Should Be Improved At District Court

During our audit of the District Court's cash receipting system, which collected in excess of \$305,000 during 1995, we noted the following internal control weaknesses:

- a. There is an improper segregation of duties for the cashiers. The cashiers receipt cash, create time pays, and post adjustments to daily receipts and accounts

receivable files in the District Court Information Systems (DISCIS). These are incompatible duties for the cashiers.

- b. Cashiers are given improper access to the DISCIS computer system. Cashiers have been assigned the accountant user identification which allows them special privileges of completing overrides and creating time pays and receipt reversals. This includes the ability to adjust and write off receivables entirely without a supervisor's approval.
- c. Critical audit reports are not being run for the purpose of monitoring the activities of the cashiers. The DISCIS system is capable of producing these "Audit Reports" which provide information on adjustments to receivables, write off of receivables, and other transactions.

Weak internal controls increase the risk that theft will occur and not be detected in a timely manner, if at all.

This situation continues to exist because the Court Administrator has failed to implement recommendations made during the prior audit.

We again recommend that the court establish policies and procedures over cash receipting internal controls. We further recommend the Court Administrator print, review, and retain all critical DISCIS audit reports.

Auditee's Response

*I concur with the findings and the recommended corrective actions.*

*As of March 10, 1997 I have started printing, retaining and reviewing all critical DISCIS audit reports. In addition, I will be limiting the number of individuals who will be authorized to receipt reversals.*

*The ability to adjust and write off receivables must be documented in writing by the Judge or myself with a copy filed with the daily DISCIS audit reports.*

*I will also be limiting the number of cashiers each day to three.*

4. The Building Department Should Strengthen Internal Controls Over Cash Receipting

During our review of the Building Department's cash receipting internal control system, which collected in excess of \$200,000 during 1995, we noted the following weaknesses:

- a. The departments is using blank Redi-form receipts. The use of Redi-form receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- b. Public funds are not being deposited intact within twenty-four hours of receipt as required by state law.
- c. Cash/check composition is not recorded on receipts.
- d. Checks are not restrictively endorsed when received.

- e. There is no segregation of duties. One employee is collecting moneys and accounting for the money collected which are incompatible duties.
- f. There is no independent reconciliation of expected revenues to the money deposited into the bank.

RCW 43.09.240 states:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty four consecutive hours.

Without adequate controls over cash receipting and reporting, there is no assurance that all receipts are properly deposited for the benefit of the public and that the accounting records are accurately prepared. Further, weak internal controls increases the risk that theft could occur and not be detected in a timely manner, if at all.

These conditions have occurred because the Building Department has not implemented strong internal controls over the cash receipting system. Also, the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the county establish policies and procedures to strengthen internal controls over the cash receipting system. These procedures should include but are not limited to the following:

- a. Replace blank Redi-form receipts with official county prenumbered receipts controlled by the treasurer.
- b. Deposit all public funds intact within twenty-four hours of receipt.
- c. Record the cash and check composition of all receipts and reconcile to assure that all moneys collected are deposited properly.
- d. Restrictively endorse checks upon receipt.
- e. Segregate the cash receipting duties of collecting, recording, and depositing.
- f. Regularly reconcile expected revenues to money deposited into the bank by an individual independent of the cash receipting process.

*Auditee's Response*

STATE AUDITOR'S PROCESSING RECOMMENDATIONS  
CORRECTIVE ACTIONS TAKEN BY BUILDING DEPARTMENT

- 1. *Department is using blank redi-form receipts. The use of "redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of the numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.*
  - A. *Mechanical Permits: When any application is received it is assigned an application log in number on both a physical log and a computer data base. Fees are receipted*

*and the receipt # entered on log book and the computer. Monthly reports are generated that calculate fees received for the applications in a month and these are compared with a tabulation of the physical logs for the month.*

- B. *NEW PROCEDURE: Will create new computer report for logged in building permit applications and do comparison of fees receipted same as for mechanicals.*

*Methods can be developed to compare the reports with the actual deposit amounts made each month.*

- C. *NEW PROCEDURE: Receipt books are being stamped with "Building Department" stamp on each receipt to provide identification. Receipt books are numbered and dated on the outside of each book.*

2. *Public funds are not being deposited intact within 24 hours of receipt.*

*Deposits have normally been made at least twice a week during times of slow permit activity and as activity increases and higher dollar amounts are receipted, the office will submit deposits as required by the Treasurer's Office to comply with county policy.*

3. *Cash/check composition is not recorded on receipts.*

*A review of 1996 receipts revealed only 3-4 cases where the receipt copy did not identify if payment was by check or cash. Staff checked those receipts against deposits and were able to identify composition of payment.*

4. *Checks are not restrictively endorsed when received.*

*It has been standard office procedure to stamp checks with Building Department stamp as soon as they are submitted. Previously, the stamp just identified the Building Department; in early 1996 the Treasurer's Office provided a stamp that also referenced the revenue deposit code number.*

5. *There is no segregation of duties. One employee is collecting monies and accounting for the money collected which are incompatible duties.*

*The number of office staff is small, they have to share duties.*

*NEW PROCEDURE: One employee normally tallies up the deposit and a second employee cross checks the totals, and initials the deposit slip.*

6. *There is no independent reconciliation of expected revenues to the money deposited into the bank.*

*Staff could initiate a quarterly check of actual revenue against expected revenue.*

5. The County Should Strengthen Internal Controls In The County Clerk's Office

Our review of internal controls over cash receipting in the county clerk's office, which receipted in excess of \$1.4 million in 1995, disclosed the following weaknesses:

- a. The county clerk opens the mail, receipts cash to the Judicial Accounting Subsystem (JASS) Receipting System (JRS), balances end-of-day cash to the JRS, prints and

signs checks, reviews exception reports, and is responsible for reconciling the bank statement. These are incompatible duties.

- b. One of the clerical people in the county clerk's office prepares and mails billings and receipts payments into the JRS. There is no oversight over this clerk's duties.
- c. There are four clerical assistants in the county clerk's office. Responsibility for control over the receipts has not been established because all of the employees have access to the office's single cash register drawer.

Professional auditing standards, regarding internal control procedures, note that segregation of duties reduces the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his or her duties, e.g., assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets.

The *Budgeting, Accounting and Reporting System* (BARS) manual, Part 3, Chapter 1, page 17, under internal control standards, further states that access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained.

Weak internal controls increase the risk that theft can occur and not be detected in a timely manner, if at all. Also, because of internal control weaknesses in the cash receipting function, no assurance can be given that all revenues have been properly receipted, recorded, reconciled, and deposited.

Weaknesses in internal controls exist because management has not implemented proper segregation of duties and has not established accountability over cash receipts.

We recommend that the county strengthen internal controls over cash receipting in the county clerk's office.

#### Auditee's Response

*Refer to the response to Finding 1 in the management section.*

#### 6. The County Clerk Should Reconcile Bank And Investment Accounts And The Trust Account

Our audit of the county clerk disclosed that checking account and investment account statements have not been reconciled to the Judicial Accounting Subsystem (JASS) Trust Account Summary Report since March 1995. Further, the trust account has not been reconciled to the checking and investment account statements since the clerk took office in January 1986. In excess of \$1.3 million was deposited into the trust account during 1995.

Without a monthly reconciliation of bank and investment account statements to the trust account, there is a high risk that errors or irregularities could occur and not be prevented or detected in a timely manner, if at all.

This condition exists because the county clerk was not able to reconcile the trust account to bank records when she took office. The conversion to the JASS system in September 1994 only resulted in falling further behind.

We recommend that the county clerk reconcile the trust checking and money market accounts monthly. We also recommend that the clerk reconcile the JASS Trust Account Summary Report monthly to the trust checking and money market accounts. We further recommend that the monthly bank reconciliations and trust account reconciliations be performed by a person other than the one writing checks and making deposits to the accounts.

Auditee's Response

*Refer to the response to Finding 1 in the management section.*

7. The County Should Improve Internal Controls Over Cash Receipting At The County Fair

During our audit of the county fair's cash receipting internal control system, which received in excess of \$80,000 during 1995, we noted the following weaknesses.

- a. There are no formally adopted policies and procedures relating to fair rental fees, damage deposits, or camping fees.
- b. There is no management oversight of the reconciliations between expected revenues and money deposited in the bank.
- c. Cash receipts are not consistently issued for all money received.
- d. One person is responsible for collecting, reconciling and accounting for funds from the fair's campground.
- e. Damage deposit checks are not remitted timely to the county treasurer. These checks are being held in a locked room, to be returned to the issuer.
- f. Ticket reconciliation sheets are completed in pencil, which makes them susceptible to alterations. Additionally, these reconciliation sheets do not bear evidence of supervisory review.

The *Budgeting, Accounting and Reporting Systems* (BARS) manual, Vol. 1, Part 3, Chapter 12, pages 7 and 8 says in part:

The Attorney General has stated that all funds received by county fair operations, such as allocated parimutuel funds, donations, and proceeds from the operation of the fair, must be properly deposited in the county treasury under the provisions of RCW 36.29.010 and RCW 36.29.020.

Without adequate controls over cash receipting and reporting, there is no assurance that all receipts are properly deposited for the benefit of the public. Further, weak internal controls increase the risk that theft will occur and not be detected in a timely manner, if at all.

While improvements have been made over the controls in place last year, the county fair has not implemented strong internal controls over the cash receipting system. Also, the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We again recommend the county develop and implement a system of internal accounting and administrative controls to provide assurance that the assets of the county fair are safeguarded. These controls should include, but are not limited to the following:



- a. Adopt formal policies and procedures covering fair rental fees, damage deposits, and camping fees.
- b. Implement management oversight of the reconciliations between expected revenues and money deposited in the bank. This should include proper evidence of this review, e.g., initialed and dated by supervisor performing the task.
- c. Issue cash receipts for all money received.
- d. Ensure that two employees collect, count, and receipt the money received from the campground.
- e. Deposit timely all moneys collected with the county treasurer as required.
- f. Complete reconciliation sheets in ink and ensure that evidence of supervisory review is present on each reconciliation.

*Auditee's Response*

*Refer to the response to Finding 1 in the management section.*

*Auditor's Concluding Remarks*

We appreciate the county's response to our audit findings. It appears that the concerns noted in the findings are being adequately addressed. We will review corrective actions taken during our next audit.

We also want to thank the county's officials and personnel for their assistance and cooperation during our audit.

**STEVENS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional  
Information**

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Board of Commissioners  
Stevens County  
Colville, Washington

We have audited the accompanying general-purpose financial statements of Stevens County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stevens County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Stevens County.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 16, 1997, on our consideration of the county's internal control structure and a report dated January 16, 1997, on its compliance with laws and regulations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 16, 1997

**STEVENS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Board of Commissioners  
Stevens County  
Colville, Washington

We have audited the general-purpose financial statements of Stevens County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Stevens County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 16, 1997

**STEVENS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Board of Commissioners  
Stevens County  
Colville, Washington

We have audited the general-purpose financial statements of Stevens County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 16, 1997

**STEVENS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements  
Applicable To Major Federal Financial Assistance Programs**

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Board of Commissioners  
Stevens County  
Colville, Washington

We have audited the general-purpose financial statements of Stevens County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- special tests and provisions related to vouchers and sampling and testing as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for reimbursements

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to in the second paragraph, which is described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs. We have considered the instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Stevens County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not

limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 16, 1997



**STEVENS COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Board of Commissioners  
Stevens County  
Colville, Washington

We have audited the general-purpose financial statements of Stevens County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated January 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated January 16, 1997.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Accounts payable
  - Payroll
  - General ledger
- **General Requirements**
  - Political activity
  - Davis-Bacon Act
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
  - Types of services
  - Special requirements
- **Claims For Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Cash receipts
  - Cash disbursements
  - Receivables
  - Purchasing and receiving
  - Inventory control
  - Property, plant, and equipment
- **General Requirements**
  - Relocation assistance and real property acquisition
- **Specific Requirements**
  - Eligibility
  - Matching, level of effort, earmarking
  - Reporting
- **Claims For Advances**

- **Amounts Claimed Or Used For Matching**

During the fiscal year ended December 31, 1995, the county expended 58 percent of its total federal financial assistance under one major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 16, 1997

STEVENS COUNTY, WASHINGTON  
January 1, 1995 Through December 31, 1995

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Schedule Of Federal Findings

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1. The County Should Comply With Federal Allowable Cost Criteria

During our review of the Public Works Department's compliance with federal highway administration's requirements, we found that the county overcharged federal highway projects \$12,878 in equipment rental costs. The department failed to properly adjust the equipment rental charges for fully depreciated equipment. Thus we have included \$12,878 in the Schedule of Questioned Costs.

OMB Circular A-87, *Cost Principles for State and Local Governments*, states that the intent of federal cost principles is that federally assisted programs bear their fair share of costs. No provision for profit or other increment above cost is intended.

The county has improperly received payment for unallowable costs by submitting reimbursement requests for costs associated with rental of fully depreciated equipment.

The county normally adjusts equipment rental costs charged to federal grants for fully depreciated equipment, but overlooked this adjustment for 1995 equipment rentals.

We recommend the county follow established procedures to assure that only allowable costs be charged for equipment rental expenses. We also recommend the county repay \$12,878 to the Department of Transportation.

Auditee's Response

*PROBLEM: Public Works overcharged federal highway projects \$12,878 in equipment rental costs.*

*SOLUTION: The county normally adjusts equipment costs charged to federal grants, but overlooked the adjustment for 1995. This was stated in the finding. The \$12,878 was repaid to the Department of Transportation. A note was put with the Annual Report procedures reminding me to do this adjustment annually as soon as the final grant billings for the year have been calculated.*

Auditor's Concluding Remarks

We appreciate the county's response to our audit finding. It appears that the concerns noted in the finding are being adequately addressed. We will review corrective actions taken during our next audit.

We also want to thank the county's officials and personnel for their assistance and cooperation during our audit.

STEVENS COUNTY, WASHINGTON  
January 1, 1995 Through December 31, 1995

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Schedule Of Questioned Costs

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<u>Grant</u>	<u>Costs Questioned</u>	<u>Explanation/ Reference</u>
Highway Planning and Construction CFDA 20.205	\$12,878	Federal Finding 1

STEVENS COUNTY, WASHINGTON  
January 1, 1995 Through December 31, 1995

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Status Of Prior Findings

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The findings contained in the prior audit report were resolved as follows:

1. Internal Controls Should Be Strengthened At The Landfill

Resolution: The county has strengthened controls.

2. The County Should Establish A System Of Internal Controls To Ensure The Proper Operation Of The County Fair

Resolution: The county has made progress in establishing internal controls at the county fair. More work needs to be done. Portions of the finding are repeated.

3. Internal Controls Should Be Improved At District Court

Resolution: The court is now running DISCIS "audit reports." Other weaknesses in internal controls continue to exist. The finding is repeated in part.